Prohibited Investments – RRSP/RRIF

March 12, 2013

This is a follow-up to our Client Update released in December 2012 which included a discussion of the Prohibited Investment (PI) rules in the Income Tax Act.

The PI rules as they apply to RRSP/RRIF plans were announced with an effective date of March 23, 2011. A limited grandfathering rule applies to securities already held in such plans as at the effective date.

It is important to remember that any new security acquired after March 22, 2011 has to be examined to determine if it constitutes a PI. **This includes securities acquired through the exercise, conversion or exchange of securities held in the plan before March 23, 2011.**

If a RRSP or RRIF acquires a PI as a consequence of taking such actions in respect of grandfathered securities, this will trigger the PI tax equal to 50% of the fair market value of the new securities acquired.

If it is determined that your plan has a PI issue with warrants, options, convertible or exchangeable securities, whether already exercised or still intact, alternatives to address this problem include determining whether actions may be taken to enable a refund of the PI tax to be claimed or to distribute the intact securities out of the plan before initiating the exercise, conversion or exchange of those securities.

If your plan held warrants, options, convertible or exchangeable securities before the PI rules were introduced, you should consult with your personal tax advisors to determine the extent to which steps may be taken to minimize the potential impact of the PI tax.

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